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C O N F I D E N T I A L SECTION 01 OF 02 HARARE 000096

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AF/S FOR B. NEULING
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE
AFR/SA FOR E. LOKEN
TREASURY FOR J. RALYEA AND B. CUSHMAN

E.O. 12958: DECL: 12/31/2010

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SUBJECT: ADVERSE REACTION TO GONO'S POLICY STATEMENT

Classified By: Ambassador Christopher Dell under Section 1.4 b/d

Summary

11. (C) Reaction to Reserve Bank (RBZ) Governor Gideon Gono's Monetary Policy Statement for the Fourth Quarter (details septel) has been largely negative. The independent media gave the most prominent coverage to Gono's public reference to the regime's concern about public unrest over food insecurity rather than his policy prescriptions. For its part, the initial reaction from prominent businessmen was largely dismissive, with one contact calling the speech a non-event.⁸ End Summary.

"Army Fears Food Riots"

12. (U) In covering the statement, the local independent media seized principally on Gono's startling disclosure on national television that Defense Forces Chief Chiwenga had confided to him concerns about civil unrest over food shortages. Gono's originally released statement noted only that Chiwenga had warned him about Bob Marley's dictum: "A hungry man is an angry man." During his nationally televised speech, however, he departed from the script and elaborated that Chiwenga had told him that he did not want to have to "turn our guns on hungry Zimbabweans" protesting food shortages. The Independent weekly headlined its article on the speech, "Army Fears food Riots" and, joined by other local and regional news outlets, portrayed the disclosure as betraying the regime's deep anxieties that food shortages could ignite civil unrest.

13. (C) As for Gono's economic prescriptions, Lionel Chinyamutangira, Head of Risk Management at NMB Bank, told econoff that the policy statement was a "non-event." Indeed, even the state media could not elicit comments from the private sector more positive than that Gono had "adequately described the constraints we face." Chinyamutangira underscored that Gono's anti-corruption and other rhetoric were familiar but that Gono had never been able to deliver progress on issues that mattered, including official corruption. He added that the exchange rate mechanism Gono had announced had effectively removed official currency trading from market forces and would make official trading levels even thinner (septel).

14. (C) Economic analyst John Robertson told econoff that Gono's excuses for inflation - largely revolving around exogenous factors such as oil prices, parallel market activities, and drought/ag sector relief - were a measure of Gono's lack of power and a frenzied effort to find others to blame.8 In that vein, Ralph Watungwa, Head of Consumer Banking at Standard Chartered, found telling the statement's attention to corruption and mismanagement of parastatals - two issues that would break the budget. Watungwa gave Gono credit for recognizing their importance but noted that in fact Gono had very little control over them beyond moral suasion. Special agricultural credit facilities, for example, had long been lent at 20% interest with little oversight and huge leakage into non-agricultural consumption. He added that parastatals were proving to be a "bottomless

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barrel;" requiring them to hold their Foreign Currency Accounts at the RBZ would not rein them in, even if the RBZ could dip into those accounts to address other priorities, such as paying the IMF. Watungwa concluded that, in any event, because corruption and parastatals implicated influential elites, Gono would be unable to meaningfully address either.

15. (C) Nonetheless, Watungwa expressed relief that the statement wasn't harsher. He noted, for example, that the banking community had feared it would lose its ability to allocate forex. At the same time, the new forex mechanism wiped out any prospect of convergence between official and parallel rates, further fueling the impetus for black markets.

Comment

16. (C) Gono's impromptu sharing of Chiwenga's comment marks a rare public admission of official concern about civil unrest. The intent behind the disclosure is unclear and Gono may yet regret it, as media reaction no doubt will pique the regime and offer fodder to his enemies. Whether the risk of civil unrest is real or not, his comment is bound to provoke further tension and insecurity within an increasingly uneasy regime. Moreover, it is yet another overt indication to domestic and regional audiences that the regime is not as secure as it tries to project. Coupled with the public's dismissal of Gono's economic prescriptions, attention to Chiwenga's spotlighted comment underscores the extent to which economic issues - including food insecurity - may prove to be the regime's Achilles heel.

DELL